

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

NOTE 6 - DEFINED BENEFIT PENSION PLANS

Substantially all full-time and qualifying part-time County employees participate in either the Public Employees' Retirement System (PERS), the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF), or the Seattle City Employees' Retirement System (SCERS). PERS and LEOFF are statewide local government retirement systems administered by the State of Washington's Department of Retirement Systems under cost-sharing, multiple-employer defined benefit public employee retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380.

Historical trend and other information regarding SCERS is presented in the Seattle City Employees' Retirement System annual financial report. A copy of this report may be obtained at: Seattle City Employees' Retirement System, 801 Third Avenue, Suite 300, Seattle, WA 98104.

Public Employees' Retirement System (PERS)**Plan Description**

PERS is a cost-sharing multiple-employer defined benefit pension plan. Membership in the plan includes elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of legislative committees; college and university employees not in national higher education retirement programs; judges of district and municipal courts; non-certificated employees of school districts; and employees of local government. The PERS system includes two plans. Participants who joined the system by September 30, 1977, are Plan 1 members. Those joining thereafter are enrolled in Plan 2. Retirement benefits are financed from employee and employer contributions and investment earnings. Retirement benefits in both Plan 1 and Plan 2 are vested after completion of five years of eligible service. Retirement benefit provisions are established in state statute and may be amended only by the state legislature.

Plan 1 members are eligible for retirement at any age after 30 years of service, at age 60 with five years of service, or at age 55 with 25 years of service. The annual pension is two percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching age 66, retirees are granted a cost-of-living allowance based on years of service credit which is capped at 3 percent annually.

Plan 2 members may retire at age 65 with five years of service, or at age 55 with 20 years of service, with an allowance of two percent per year of service of the average final compensation. Average final compensation is based on the greatest compensation during any 60 eligible consecutive service credit months. Plan 2 retirements prior to 65 receive reduced benefits. If retirement is at age 55 with 30 years of service, a 3 percent per year reduction applies, otherwise an actuarial reduction will apply. There is no cap on years of service credit and a cost-of-living allowance is granted, capped at 3 percent annually.

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There are 1,177 participating employers in PERS. Membership in PERS consisted of the following at December 31, 2000:

Retirees and Beneficiaries Receiving Benefits	61,088
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	17,314
Active Plan Members Vested	98,018
Active Plan Members Nonvested	<u>54,243</u>
Total	<u>230,663</u>

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates and Plan 2 employer and employee contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent and do not vary from year to year. The employer and employee contribution rates for Plan 2 are set by the director of the Department of Retirement Systems based on recommendations of the Office of the State Actuary to continue to fully fund Plan 2. All employers are required to contribute at the level established by state law. The methods used to determine the contribution rates are established under state statute in accordance with *Revised Code of Washington (RCW)*, Chapters 41.40 and 41.45.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2001, were:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>
Employer	1.77% ¹	1.77% ¹
Employee	6.00%	0.88%

Both the County and the employees made the required contributions. The County's required contributions, net of administrative fee, for the years ended December 31 were:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>
2001	\$ 2,754,000	\$ 15,681,000
2000	3,994,250	20,658,600
1999	5,857,000	27,179,000

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)**Plan Description**

LEOFF is a cost-sharing multiple-employer defined benefit pension plan. Membership in the plan includes all full-time, fully compensated local law enforcement officers and firefighters. LEOFF is comprised solely of nonstate employees. The LEOFF system includes two defined benefit pension plans. Participants who joined the system by September 30, 1977, are Plan 1 members. Those joining thereafter are enrolled in Plan 2. Retirement benefits are financed

¹ The employer rates include the employer administrative expense fee currently set at 0.23%.

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from employee and employer contributions, investment earnings, and state contributions. Retirement benefits in both Plan 1 and Plan 2 are vested after completion of five years of eligible service. Retirement benefit provisions are established in state statute and may be amended only by the state legislature.

Plan 1 members are eligible to retire with five years of service at age 50. The benefit per year of service is as follows, with a cost-of-living allowance granted and capped at three percent annually:

<u>Term of Service</u>	<u>Percent of Final Average</u>
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

Plan 2 members are eligible to retire at age 50 with 20 years of service, or at age 53 with five years of service. Retirement benefits prior to age 53 are actuarially reduced 3 percent for each year that the benefit commences prior to age 53. The benefit is 2 percent of average salary per year of service. The average salary is based on the highest consecutive 60 months. There is no cap on years of service credit and a cost-of-living allowance is granted and capped at 3 percent annually.

There are 362 participating employers in LEOFF. Membership in LEOFF consisted of the following at December 31, 2000:

Retirees and Beneficiaries Receiving Benefits	7,923
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	279
Active Plan Members Vested	10,680
Active Plan Members Nonvested	<u>3,952</u>
Total	<u>22,834</u>

Funding Policy

Plan 1 employer and employee contribution rates are established by statute, and the state is responsible for the balance of the funding at rates set by the Pension Funding Council to fully amortize the total costs of the plan. Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee rates for Plan 2 are set by the director of the Department of Retirement Systems based on recommendations of the Office of the State Actuary to continue to fully fund the plan. Plan 2 employers and employees are required to contribute at the level required by state law. The methods used to determine the contribution rates are established under state statute in accordance with *RCW*, Chapters 41.26 and 41.45.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2001, were:

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	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
Employer	0.23% ²	2.93% ²
Employee	0.00%	4.50%

Both the County and the employees made the required contributions. The County's required contributions, net of administrative fee, for the years ended December 31 were:

	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
2001	\$ 0	\$ 1,417,425
2000	112,940	1,311,385
1999	245,455	1,497,365

Seattle City Employees' Retirement System (SCERS)

SCERS is a cost-sharing multiple-employer retirement plan administered in accordance with the *Seattle Municipal Code*, Chapter 4.36. County employees of the Department of Public Health who have established membership in SCERS remain covered by the City Retirement System. In addition, employees of Public Transportation who are former employees of Seattle Transit are covered by the system. SCERS provides retirement, death, and disability benefits.

Employees covered by this Plan may retire after 30 years of service regardless of age, after age 52 with 20 years or more of service, after age 57 with ten or more years of service, and after age 62 with five or more years of service. Disability retirement is available after ten years of service. The unmodified monthly retirement allowance is based on a percentage of average salary for every year of service to a maximum of 60 percent. The average salary for this Plan is defined as the highest consecutive twenty-four months average rate of pay. The percentage for each year of service used to compute the retirement benefit depends on the age at retirement and the years of service, and ranges from 1.2 percent at age 52 with 20 years of service to a maximum of 2 percent for each year of service. The maximum allowance a member can receive is the unmodified plan which has no provision for a beneficiary and at the member's death all payments stop. Several optional retirement benefit formulas exist which provide for beneficiaries with reduced monthly allowances.

The SCERS member contribution rate is 8.03 percent of compensation except for members qualifying for lower rates prior to June 1972. The County is required to contribute at an actuarially determined rate. The current rate is 8.03 percent of annual covered payroll. The contribution requirements of plan members and the County are established and may be amended by the Board of Administration. Both the County and the employees made the required contributions. The County's required employer contributions for the years 1999, 2000, and 2001 ending December 31 were \$1,017,200, \$960,600, and \$913,700, respectively.

² The employer rates include the employer administrative expense fee currently set at 0.23%.

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NOTE 6 - CONTINUED**Component Unit - Harborview Medical Center (HMC)**

HMC personnel are University of Washington (UW) employees and as such participate in either the State of Washington Public Employees Retirement System or the University of Washington Retirement System (Teachers Insurance and Annuity Association and the College Retirement Equities Fund). All plans include contributions by both employee and employer. Employer contributions are paid monthly by UW in accordance with rates specified by the retirement systems.

Component Unit - WSMLB Stadium Public Facilities District (PFD)

All employees of the District participate in either the Public Employees' Retirement System (PERS) or the Stadium PFD Retirement Plan. Employer contributions are paid by the District in accordance with rates specified by the individual plans. Total payroll covered by all systems for the year ended December 31, 2001, was \$31,956.

As a municipal corporation of the State of Washington, the Washington State Major League Baseball Stadium Public Facilities District (PFD) employees are eligible for membership in the State of Washington Public Employees Retirement System (PERS). The PFD Board of Directors adopted participation in the PERS Plan in 1996. However, admission to PERS was effective February 1, 1997, with the ability to retroactively purchase service credit for employee service earned in 1996. Retroactive payments will be paid over a five-year period.

Employees are also able to select the Stadium PFD Retirement Plan as an alternative benefit plan to PERS. The Plan is designated as a profit-sharing plan in accordance with Section 401 (a)(27)(B) of the Internal Revenue Code. No contribution by participants is required or permitted other than authorized rollover contributions. All contributions to the Plan vest immediately. Actual contributions made to the Plan in 2001 were \$1,433.

NOTE 7 - POSTRETIREMENT HEALTH CARE BENEFITS

In accordance with the Washington Law Enforcement Officers and Fire Fighters Retirement System (LEOFF) Act (*RCW* 41.26), the County provides certain health care benefits for retired full-time, fully compensated law enforcement officers who established membership in the LEOFF I retirement system on or before September 30, 1977. Substantially all of the County's law enforcement officers who established membership in the LEOFF I retirement system may become eligible for those benefits when they reach normal retirement age. The King County Sheriff's Office, in conjunction with the King County Disability Board, reimburses retired LEOFF I police officers for reasonable medical charges as described in the LEOFF Act. In 2001, 320 retirees received benefits under this act. As of December 31, 2001, there were 44 active officers with an average age of 55 who may become eligible for those benefits when they reach normal retirement age.

The cost of retiree health care benefits is recognized as an expenditure in the General Fund as claims are paid. For 2001 those costs total \$1,067,778, with an average cost per retiree of \$3,337.